In the Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-1432

GEORATOR CORPORATION, PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

MEMORANDUM FOR THE UNITED STATES IN OPPOSITION

Petitioner is the holder of a federally registered trademark. In 1964, a petition was filed in the Patent Office to cancel that registration on the ground that the trademark had become the common descriptive name of the article. Petitioner resisted the cancellation, and, after four years of litigation, the Patent Office dismissed the proceeding.

In the course of defending its trademark registration, petitioner incurred legal fees which it deducted as ordinary business expenses under Section 162(a) of the Internal Revenue Code of 1954. The Commissioner disallowed the deduction on the ground that the fees paid were capital expenditures. The district court held that the expenditures were currently deductible (Pet. App. 1a-3a), but the court of appeals reversed (Pet. App. 4a-10a).

1. Although Section 162(a) of the Internal Revenue Code allows a deduction for ordinary and necessary business expenses, expenditures that are capital in nature are not currently deductible but must be added to capital account. Thus, where an expenditure is intended to secure benefits or a business advantage which will extend beyond the taxable year, it must be capitalized. *Darlington-Hartsville Coca-Cola Bot. Co.* v. *United States,* 393 F. 2d 494 (C.A. 4); *Stevens* v. *Commissioner,* 388 F. 2d 298 (C.A. 6); *Richmond Television Corp.* v. *United States,* 345 F. 2d 901 (C.A. 4), vacated and remanded on another issue, 382 U.S. 68. *United States* v. *Akin,* 248 F. 2d 742 (C.A. 10). On the basis of these principles, the decision below correctly held that since the benefits from petitioner's trademark registration were of indeterminate duration and likely to extend beyond the taxable year, the costs of securing the benefits of registration, including costs incurred resisting its cancellation, are capital expenditures (Pet. App. 6a-7a).

This holding accords with the decision of the Second Circuit in *Danskin, Inc.* v. *Commissioner,* 331 F. 2d 360, that expenses incurred by the owner of a trademark in an infringement action against a competitor must be capitalized. In fact, the expenses in question even more closely resemble the acknowledged capital costs of perfecting or preserving title to property, than did the expenses in *Danskin.* In this respect, Treasury Regulations on Income Tax (1954 Code), Sections 1.212-1(k) and 1.263(a)-2(c), disallow deductions and require capitalization of costs of defending title to property whether or not the defense enhances the value of the property. *Bowers* v. *Lumpkin,* 140 F. 2d 927 (C.A. 4); *Safety*

Tube Corp. v. *Commissioner*, 168 F. 2d 787 (C.A. 6).[1] Petitioner errs in its assumption (Pet. 6, 16) that "capital assets" constitute the only category of property, the costs of which must be capitalized. Cf. Secs. 263, 1221.

The cases relied on by petitioner (Pet. 9-11), are not in conflict with the decision below. Some of the cases are clearly inapposite,[2] while others are merely illustrative of the varying results reached in different factual situations.[3] Essentially, the determination must be made on the basis of each individual case by looking to the pur-

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[1]It is also clear that Section 263 of the Code, which disallows deductions for expenditures which increase the value of property, does not provide a complete or exhaustive list of nondeductible capital expenditures. *Commissioner* v. *Lincoln Savings & Loan Assn.*, 403 U.S. 345, 358.

[2]*Ditmars* v. *Commissioner*, 302 F. 2d 481 (C.A. 2), and *Kornhauser* v. *United States*, 276 U.S. 145, involved the totally different question whether certain legal expenses incurred by the taxpayer were related to his business or profit-making activities, or were merely nondeductible personal expenditures. See also *Commissioner* v. *Heininger*, 320 U.S. 467. The question of a deductible business expense versus a nondeductible capital expense (albeit a business one) was not even raised in these cases.

[3]*J.R. Wood & Sons, Inc.* v. *Commissioner*, 21 T.C.M. 1038; *Urquhart* v. *Commissioner*, 215 F. 2d 17 (C.A. 3); *Ward* v. *United States*, 32 F. Supp. 743 (D. Mass.). In *J.R. Wood & Sons, Inc., supra*, the Tax Court held that the taxpayer's suit against an alleged infringer did not seek to gain, protect, or improve title to any capital asset. However, the Tax Court emphasized that the portion of the litigation involving the taxpayer's defense of his trademark and trademark registration was so secondary that it was of little or no importance in assessing the character of the litigation. On the other hand, *Urquhart* and *Ward*, *supra*, do not indicate the nature, purpose, or effect of the particular patent litigation involved.

pose and effect of the expenditure in question. *Danskin, Inc.* v. *Commissioner, supra; Helgerson* v. *United States,* 426 F. 2d 1293 (C.A. 8).[4]

2. Furthermore, the court below correctly held that Section 177 of the Internal Revenue Code and its legislative history[5] demonstrate that any "trademark or trade name expenditure," as defined in Section 177(b), is required to be capitalized, and that the expenditures here in question come within that definition (Pet. App. 7a-10a). Although that provision permits an election to amortize such expenditures over a period of not less than sixty months, petitioner did not elect to do so. Cf. *Danskin, Inc.* v. *Commissioner,* 331 F. 2d 360, 362 (C.A. 2).[6]

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[4]Petitioner mistakenly assumes (Pet. 7, 9) that there is a specific "taxable status" to either a trademark or its registration. With respect to both a trademark and its registration, the facts relating to each expenditure will determine whether its benefits would be consumed in the taxable year or extend beyond it.

[5]The pertinent Senate Committee Report stated: "Under present law, expenditures paid or incurred by smaller companies in connection with trademarks and trade names, such as legal fees, are not deductible but must be capitalized." S. Rep. No. 1941, 84th Cong., 2d Sess., p. 8.

[6]Though it would not in any event support petitioner's claim that its litigation expenses in the Patent Office were ordinary and necessary expenses deductible under Section 162(a), petitioner is in error in continuing to assert (Pet. 15-16) that the trademark registration had a definite and ascertainable life. Trademark registrations may be renewed indefinitely for periods of 20 years subject, of course, to the possibility of cancellation. Act of July 5, 1946, c. 540, 60 Stat. 427, Secs. 9, 14 (15 U.S.C. 1059, 1064). Accordingly, the Internal Revenue Code treats a federal trademark registration as having indeterminate life. See *Nach-*

For the reasons stated, it is respectfully submitted that the petition for a writ of certiorari should be denied.

ROBERT H. BORK,
Solicitor General.

MAY 1974.

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man v. *Commissioner*, 12 T.C. 1204, affirmed, 191 F. 2d 934 (C.A. 5); *Commissioner* v. *Indiana Broadcasting Corp.*, 350 F. 2d 580 (C.A. 7), certiorari denied, 382 U.S. 1027; *Gant* v. *Commissioner*, 263 F. 2d 558 (C.A. 6); *W.K. Co.* v. *Commissioner*, 56 T.C. 434.